

## **Impact of physician-owned heart hospitals on utilization**

**ISSUE:** In response to concerns about the rapid growth of physician-owned specialty hospitals, the Medicare Modernization Act requires MedPAC to conduct a study of these hospitals. This paper examines how physician ownership of heart hospitals affects the volume of cardiac surgeries performed in markets with heart hospitals. There are two key questions to be addressed. First, how large are physicians' financial incentives to admit certain types of patients to their heart hospital. Second, do markets with physician-owned heart hospitals have unusually high growth rates of profitable cardiac surgeries.

**KEY POINTS:** We compare increases in the number of cardiac surgeries per Medicare beneficiary in markets with physician-owned heart hospitals to markets without physician-owned hospitals. We also examine whether growth rates for more profitable admissions (e.g. surgeries and low-severity cases) are higher than growth rates for less profitable patients (e.g. medical and high-severity cases). To control for national trends, the changes in utilization in markets with physician-owned hospitals are always compared to changes in markets without physician-owned hospitals.

**ACTION:** We would appreciate comments and suggestions from the Commission on this topic.

**STAFF CONTACT:** Jeffrey Stensland (202-220-3700)

## **Financial impact of physician-owned heart hospitals on community hospitals**

**ISSUE:** In response to concerns about the rapid growth of physician-owned specialty hospitals, the Medicare Modernization Act requires MedPAC to determine “the financial impact of physician-owned specialty hospitals on local full-service community hospitals.” The concern is that specialty hospitals may be taking away profitable patients from community hospitals thereby causing a financial strain on the local health care delivery system.

**KEY POINTS:** To fulfill this mandate, we examine change in the financial condition of community hospitals that operate in markets with physician-owned specialty hospitals. To control for industry-wide changes in margins, we compare changes in the financial condition of hospitals that face new competition from physician-owned specialty hospital to changes in the financial condition of hospitals that operate in markets without physician-owned specialty hospitals. This is a “differences in differences” approach.

At the meeting we will present descriptive statistics including changes in Medicare revenue, changes in Medicare payment-to-cost ratios, changes in total (all payer) margins, and changes in the net worth of full service community hospitals that have been competing with physician-owned hospitals. In addition to descriptive statistics, we will also discuss results of a fixed-effects regression model that evaluates the average impact of physician-owned hospitals on community hospitals while controlling for the individual characteristics of each community hospital and for changes in the demand for services in each hospital’s market.

**ACTION:** We would appreciate comments and suggestions from the Commission on this topic.

**STAFF CONTACT:** Jeffrey Stensland (202-220-3700)

## **Costs in physician-owned specialty hospitals and full-service community hospitals**

**ISSUE:** In response to concerns about the rapid growth of physician-owned specialty hospitals, the Medicare Modernization Act requires MedPAC to conduct a study of these hospitals. Among other issues, MedPAC is required to examine costs in physician-owned specialty hospitals and full-service community hospitals. If physician-owned specialty hospitals were able to produce care at lower costs than community hospitals, that finding might be a point to consider in their favor along with findings on other issues, such as their payer mix, patient selection, and impact on other hospitals and the community health care delivery system.

**KEY POINTS:** We will summarize preliminary findings from our analysis of Medicare inpatient costs per discharge. We compare Medicare inpatient costs per discharge between physician-owned specialty hospitals, peer specialty hospitals—which have a high concentration in the same clinical specialty but are not physician owned—and community hospitals. We also examine differences in lengths of stay for Medicare patients in the same hospital groups. In this part of the analysis, we compare the average Medicare length of stay for each hospital group with the averages it would be expected to have, given its mix of Medicare cases, if each hospital in the group had the regional average length of stay for each severity class within all-patient refined DRGs.

**ACTION:** We would appreciate comments and suggestions from the Commission on this topic.

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